

CASH FLOW AND INVESTMENT CONSIDERATIONS

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INVESTMENT CASH FLOW

- Safety, Liquidity and Yield
- Certainty of Cash Flows
 - Quality of Assets
 - Type of Assets
- Timing of Cash Flows

SECURITY CASH FLOW CHARACTERISTICS

- Bullets
- Callable Securities
- Mortgage and Asset Backed Securities

BULLETS

- Stated Maturity
 - Fixed Interest Payment Dates
- Coupon Payment
 - Fixed
 - Floating
- Credit Quality

CALLABLES

- Different Call Types
 - European (One Time) Calls
 - Bermudan (Specified Call Schedule) Calls
 - Monthly, Quarterly, Semi-Annually, Annually
 - American (Continuous) Calls
- Impact on Cash Flows

MORTGAGE & ASSET BACKED SECURITIES

- Repayment of Principal and Interest
- Prepayments Dependent on Interest Rates
- Prepayments Act as Calls

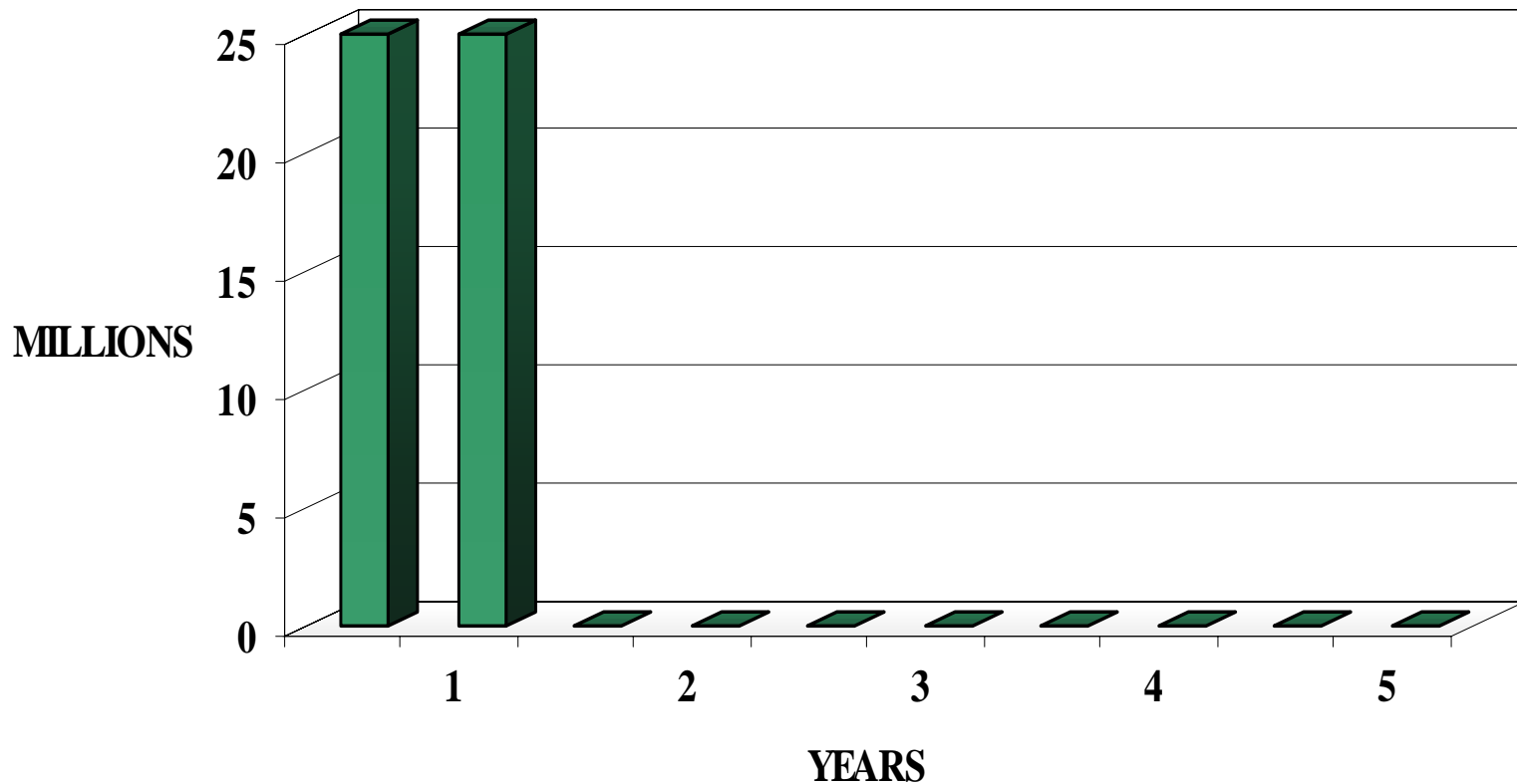
PORTFOLIO MANAGEMENT

- Styles
 - Cash Flow Matching
 - Discrete Portfolios
- Strategies
 - Active
 - Quasi-Active/Passive
 - Passive

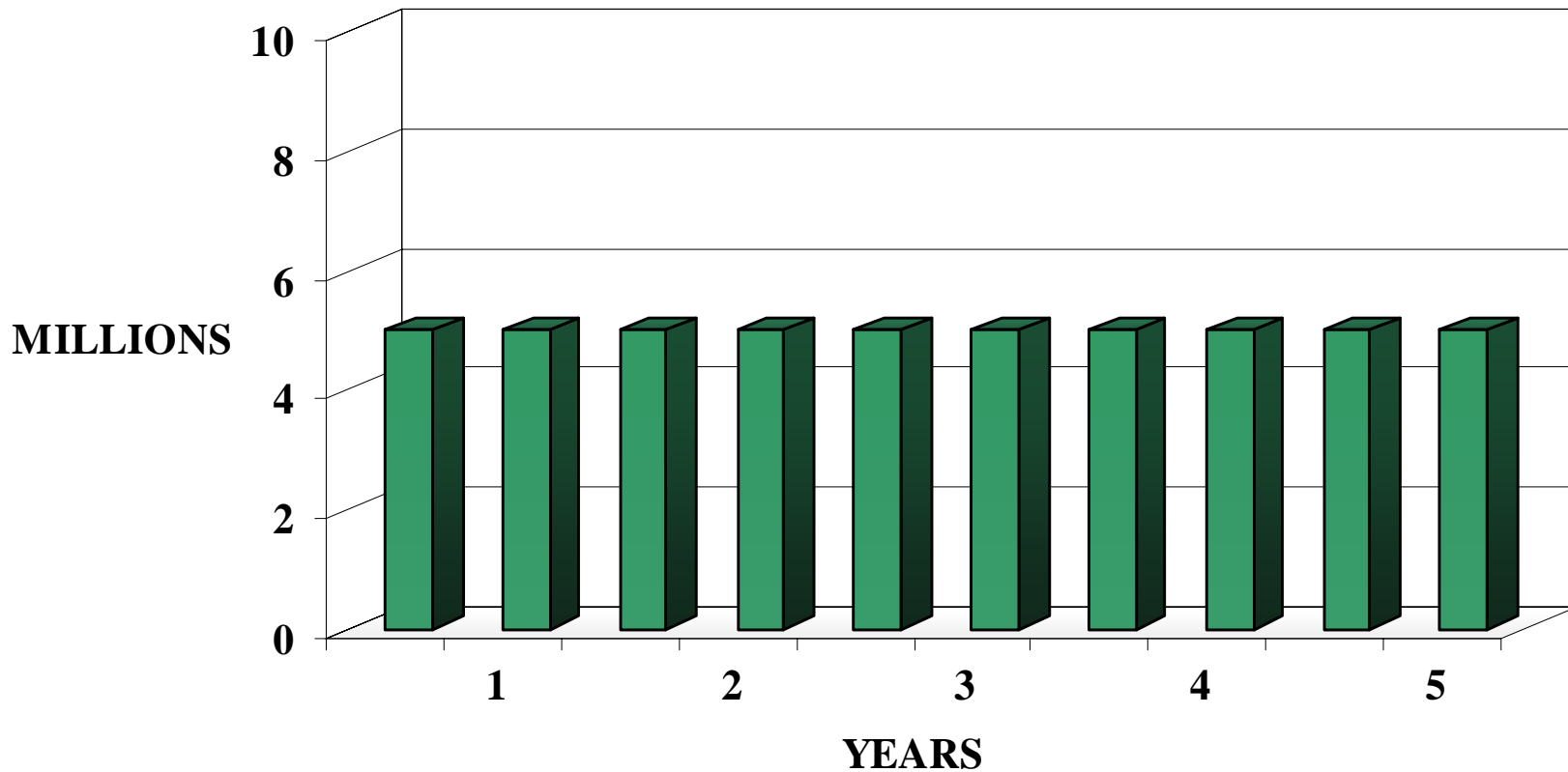
CASH FLOW MATCHING

- Asset / Liability Management
- Liquidity Portfolio
 - Bills Get Paid
- Issues
 - Unknown Cash Flows
 - Waiting on the Budget
 - Too Much Liquidity

LIQUIDITY PORTFOLIO



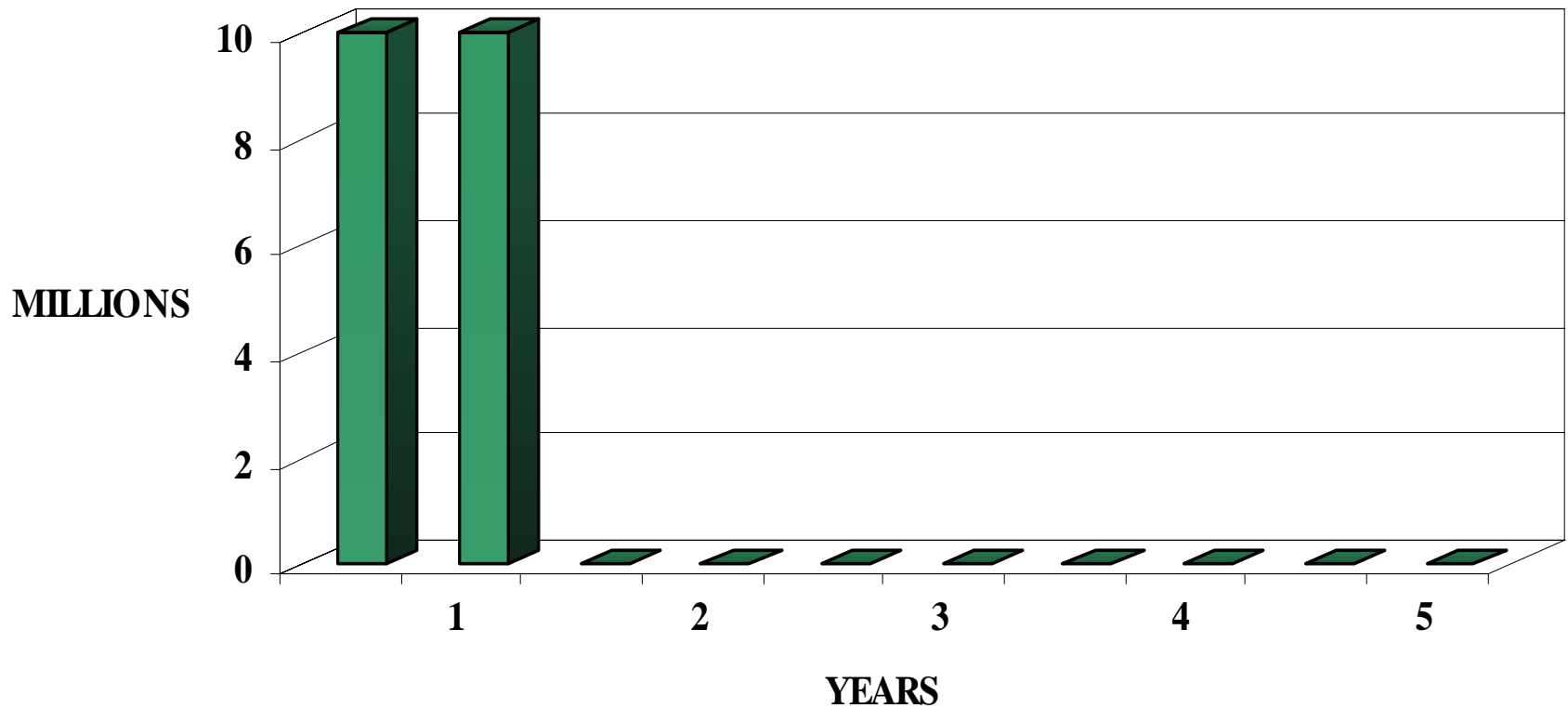
LADDERED PORTFOLIO



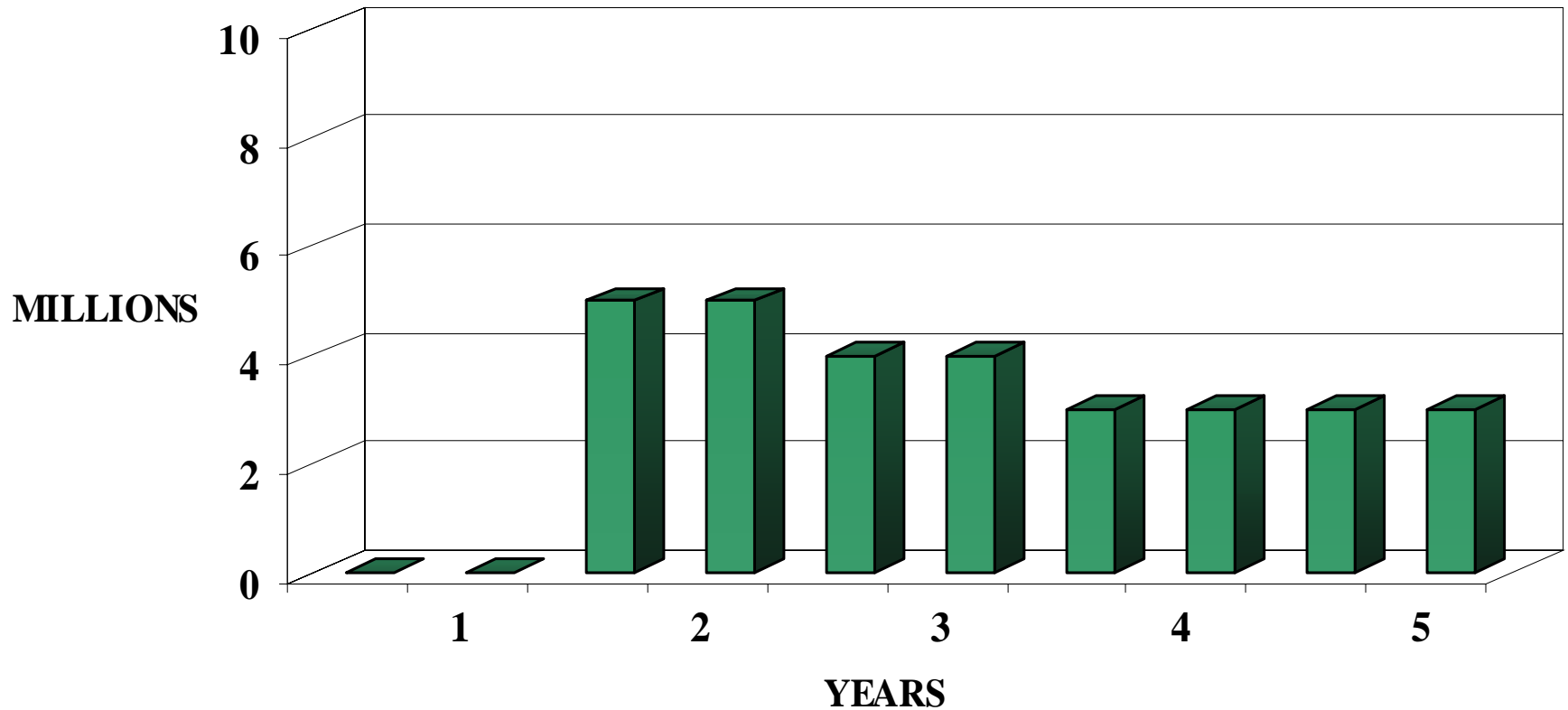
DISCRETE PORTFOLIOS

- Two or More Portfolios Within Portfolio
- Short-term
 - Provides for Cash to Meet Liquidity Needs
- Long-term
 - Not Needed for Cash Flow
 - Invested to Increase Performance

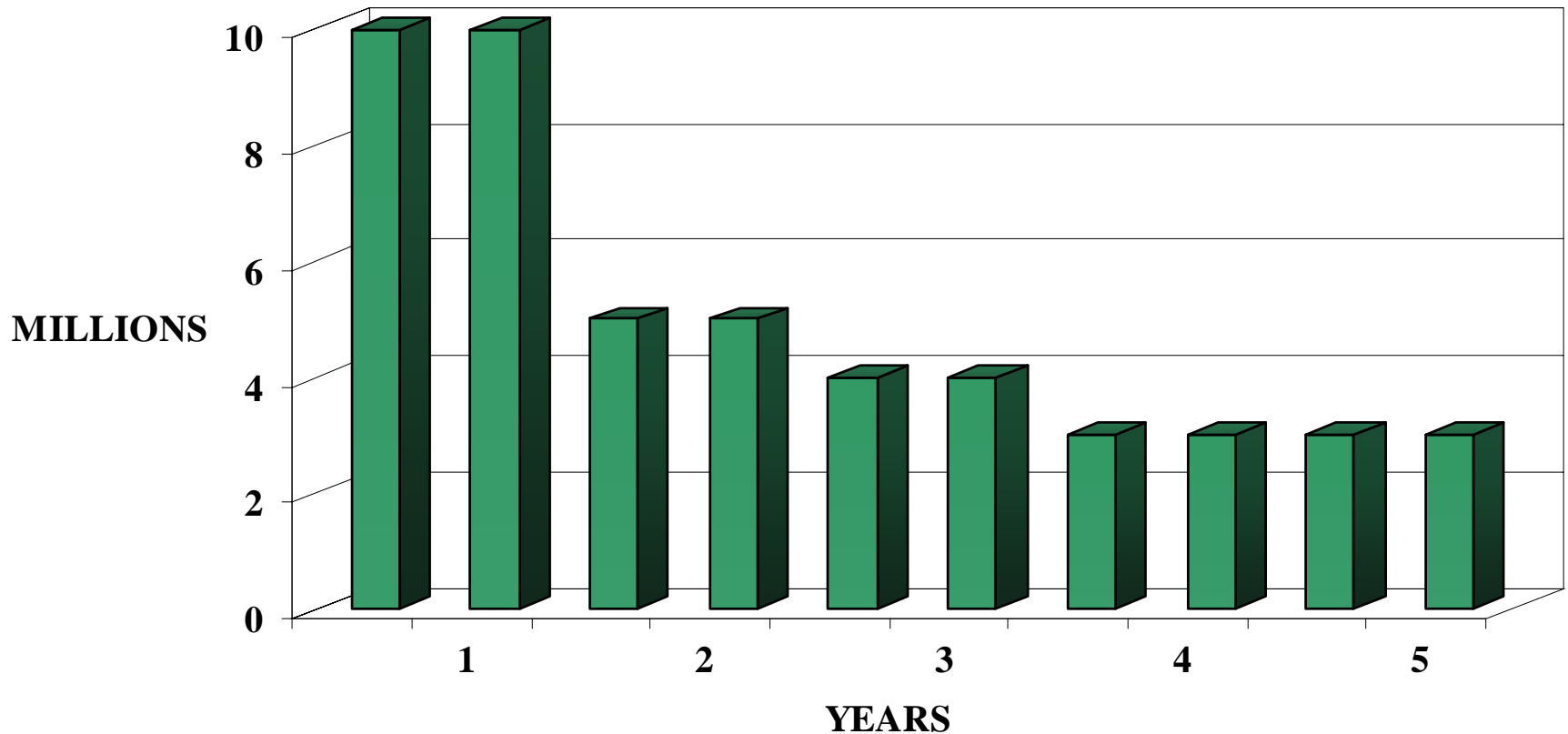
LIQUIDITY COMPONENT



ACTIVE COMPONENT



DISCRETE PORTFOLIO



ACTIVE MANAGEMENT

- Duration Matching
- Adjust Management Style to Reflect Market
- Taking Advantage of Market Timing
 - Excess Returns
- How Do You Deal With Losses?

QUASI-ACTIVE/PASSIVE

- Indexation
 - Performance Emulates Index (i.e. Dow Jones)
- Benchmarking
 - Able to Measure Performance
 - Benchmark Must Represent Your Reality

PASSIVE MANAGEMENT

- Buy and Hold
- Is Buy and Hold Dead?
- Easy to Explain
 - Set Expectations
 - Policies and Procedures